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MEMORANDUM

TO: Agency Payroll and Personnel Officers

FROM: Alma McKinney, Director, Division of Personnel
James A. Carder, Director, Division of Accounting

DATE: November 7, 2001

RE: 2001 Calendar Year End Payroll Processing

This memorandum identifies and explains several important Form W-2 and payroll/deduction processing procedures. Please ensure that all appropriate personnel in your organization are aware of these requirements.

1. All 2001 Check Cancellations Due January 3

In order to produce correct 2001 Form W-2s, Wage and Tax Statements, all Tax Year 2001 payroll check cancellations, including December 31, 2001 corrections, must be received by the Division of Accounting on or before January 3, 2002.

Failure to submit cancellations timely will cause employee Form W-2s to be overstated, requiring manual corrections.

2. MOSERS Optional Group Term Life Insurance

Employee optional life insurance premiums for January 2002 may be adjusted due to an increase/decrease in the premium rate; a change in annual salary; a change in age bracket; a change in coverage election; or a combination of these reasons.

Changes to the optional life insurance premiums will be automatically adjusted in SAM II/HR from information received from MOSERS. Since these premiums are paid concurrent with the pay period, the employees' January 31, 2002 paycheck will reflect the new premium amount. After-tax premiums, and premium changes for dependent spouse coverage will be automatically adjusted. Premiums for dependent child(ren) coverage will not change. Agencies will need to enter deduction transactions for employees who add or cancel dependent child(ren) coverage.

3. Missouri Consolidated Health Care Plan (Health, Dental, Vision)

Employees enrolled in the MCHCP health, dental, and vision plans for 2002 will have their premium changes automatically adjusted in SAM II/HR by the Office of Administration from information received from MCHCP and the cafeteria plan. Since health insurance premiums are paid in advance, the December 14 & 31, 2001 paychecks will reflect the new health insurance premium amount for January 2002 coverage.

Employees enrolled in the Cafeteria Plan in 2001 will be automatically enrolled in the Cafeteria Plan in 2002. A report will be provided from the Cafeteria Plan named the "Positive Enrollment Report" for 2002. Agencies will need to review this report and make adjustments to the employee 2002 enrollments that are changing from 2001 for the Health Care and state sponsored Dental & Vision plans. See item #4 for details.

Unlike health insurance, MCHCP dental and vision plan premiums are withheld on the January 15, 2002 check in payment of coverage for January 1-15. Therefore, dental and vision premiums will be adjusted on the January 15, 2002 payroll check for January coverage. The deduction should have an Effective Date of December 16, 2001 with the expiration date of December 15, 2002.

4. Missouri State Employees' Cafeteria Plan

Employees currently enrolled for 2001 in the insurance premium categories (health, state sponsored dental, and vision) of the Cafeteria Plan will have their enrollment automatically continued for 2002. As previously stated, health insurance premiums will be adjusted on the December 14 & 31, 2001 paychecks and the dental and vision plan premiums will be adjusted on the January 15, 2002 paychecks. As health, dental and vision plans are established in SAM II/HR, expiration dates are set based on the plan year. Agencies should enroll new employees throughout the year with the proper year ending expiration dates to prevent erroneous deductions in December and January.

Plan administrative fees were established in SAM II/HR with an expiration date of 99/99/99. The Administrative fee is a separate and unlinked deduction code. If an employee does not re-enroll in the cafeteria plan for 2002, the agency will need to expire the ADMFE deduction with an expiration date of December 15, 2001.

Employees must re-enroll in the flex categories for medical and dependent care expenses each plan year. The Office of Administration converted the Conversion Groups 2, 3, & 4, expiration dates of December 31, 2001 for flexible medical and dependent care. These expiration dates must be changed to December 15, 2001 if the employee is not re-enrolled for 2002, or extended through December 15, 2002 for employees who re-enroll in the flexible medical or dependent care categories. These changes must be processed by January 5, 2002.

Agency payroll/personnel offices will be receiving Positive Enrollment Reports (including dental and vision) from the Cafeteria Plan Administrator starting in December. It is recommended these reports be used by agencies to enter payroll deduction transactions effective for the January paychecks.

The following actions will appear on the Positive Enrollment Reports:

- 1) Employees who have cancelled the Cafeteria Plan status of a health, dental, or vision insurance category (deduction codes will need to be expired to avoid erroneous withholding).
- 2) Employees who have added an insurance category to the Cafeteria Plan.
- 3) Employees who have a change in their Administrative Fee.
- 4) Employees who have re-enrolled in either or both the flexible medical and/or dependent care categories.
- 5) Employees newly enrolled in the Cafeteria Plan (effective and expiration dates must be entered for all new enrollee's in either or both the flexible medical or dependent care).

5. Missouri State Employee Charitable Campaign

Charitable campaign pledge deductions are effective for one plan year only. Agencies will need to submit deduction transactions for employees participating in the charitable campaign program in 2002. For those employees discontinuing participation in 2002, an expiration date of December 15, 2001 must be entered. For those employees continuing or new participants, an effective date of December 16, 2001 and expiration date of December 15, 2002 must be entered. These changes must be processed by January 7, 2002.

6. Form W-2s -- Distribution/Returns

Form W-2s are scheduled to be distributed to all state agencies approximately January 25th. W-2s can be mailed in the window envelope designed for mailing checks. Form W-2s returned to your agency by the Post Office should be forwarded to the Division of Accounting.

7. City Earnings Tax Refunds

Refund claims must be filed by employees with the applicable city.

8. When Should a Federal Form W-4 Be Filed?

Employees are required to file a Form W-4, Employee's Withholding Allowance Certificate, on or before the date of employment and when it is determined their tax withholding status has changed.

If an employee in your agency filed a 2001 Form W-4 claiming exemption from withholding, federal regulations state that the "exempt" status is good for one year only and will expire by February 15, 2002. If a new 2002 Form W-4 is not filed by the employee, federal withholding tax must be withheld as if the employee is single with zero withholding allowances.

Employees claiming exempt should have 99 allowances entered on the TAX window to accommodate their exempt status.

9. Form W-5, Earned Income Credit Advance Payment Certificate

Form W-5 (Earned Income Credit Advance Payment Certificate) and IRS Publication 596 (Earned Income Credit) explain in detail who can take the Earned Income Tax Credit (EIC).

Employees can claim the EIC on their Form 1040 or 1040A or if eligible for advance payments, they can choose to receive the credit during the year with their pay. To get advance payments, they will have to complete Form W-5, Earned Income Credit Advance Payment Certificate, which is available from the IRS. Eligible employees who do not file Form W-5 will not receive advance payments, but they can still get the full benefit of the EIC on their annual tax returns.

Under federal regulations, each qualified employee requesting advance EIC payments must complete a new Form W-5 each calendar year. A Form W-5 used for 2001 may not be used for calendar year 2002.

Refer to Policies and Procedures, Employee Benefits Deduction, Entering/Modifying Income Tax Deductions. There is no automatic expiration of EIC. Agencies must Effective Date the EIC information on the Employee Tax Parameters (TAX) window. A listing of 2001 EIC recipients can be obtained from the Data Warehouse.

10. Standard Mileage Rate for Reporting Automobile Commuting Use Value

For 2001, the standard mileage deduction rate set by IRS for the business use of an automobile is 34.5 cents per mile. Those employees using the vehicle cents-per-mile method of reporting auto fringe benefits must have their 2001 automobile commute value calculated using the 34.5 cents per mile rate. The 2002 standard mileage deduction rate set by the IRS for business use of an automobile will be published when it becomes available. A separate memo regarding Reporting State Vehicle Use will be published in January 2002.

Refer to SAM II/HR Imputed Wages (Agency) L3, Automobile Commute Procedures for instructions on how to report auto commute use values.

11. How to Order Forms

State agencies may procure 2002 Federal Forms W-4 and W-5 by contacting a local IRS office or by calling the IRS toll free at 800-829-3676. Forms will be shipped free of charge. They are also available on their web site at

www.irs.gov/forms_pubs/forms.html

The MO W-4, Missouri Withholding Allowance Certificate, may be ordered by calling the Missouri Department of Revenue at 800-877-6881, their web site at

www.dor.state.mo.us/tax/forms/, or by writing to:

Missouri Department of Revenue
Division of Taxation and Collection
P.O. Box 3022
Jefferson City, MO 65105-3022

12. Copies of Federal Form W-4 to IRS

Copies of all Federal Form W-4s received during a quarter, and claiming more than 10 withholding allowances, or claiming exemption from withholding when wages are expected to exceed \$200 per week at the time a W-4 is filed, must be forwarded by the Division of Accounting to the IRS at the end of each quarter. All agencies are requested to submit copies of Federal Form W-4s claiming over 10 exemptions or exempt status to the Division of Accounting, Payroll Unit no later than the 10th day of the month following the end of each quarter.

Blocks 8, 9, and 10 of all Federal Form W-4s that are required to be forwarded to the IRS, must be completed by the employing agency as follows:

Block 8 - State of Missouri
(Agency Name and Address)
Block 9 - Enter employee's agency/org/pay location code
Block 10 - Enter 44-6000987

13. Copies of MO W-4 to Missouri Department of Revenue - New Hire Reporting

A copy of Form MO W-4, Missouri Employee's Withholding Allowance Certificate, for each new or rehire employee must be forwarded to the Missouri Department of Revenue, P.O. Box 3340, Jefferson City, Missouri 65105-3340 within 20 days after the employer hires the employee.

14. 2001 Social Security and Medicare Wage Bases and Tax Rates

The Social Security (OASDI) wage base for 2002 will be \$84,900, an increase of \$5,100 over the 2001 base of \$79,800. This increase will become effective for wages paid on or after January 1, 2002. There is no limit on the wages subject to the Medicare (HI) tax.

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The employer and employee tax rate of 7.65%, which is the combined OASDI rate of 6.2% for wages up to \$84,900 and the HI rate of 1.45% for all wages paid will remain the same for 2002.

15. Federal and State Income Tax Withholding Modified for 2002

For 2002, the federal individual income tax brackets, the federal standard deductions and the federal personal exemption value will be indexed for inflation.

The formula used for calculation of Missouri withholding tax will also be revised effective January 1, 2002, to reflect increases in the annual standard deduction amounts and the withholding allowances.

16. Educational Reimbursements

All educational reimbursements should be reviewed for wage reporting. See Policy & Procedure "Deductions & Benefits Agency/Reportable or Non Reportable Fringe Benefits/Educational Reimbursements." Also IRS Publications 508-Tax Benefits for Work-Related Education or 520-Scholarships and Fellowships.

If you have questions about the information in this memo, please contact your Level 1 Help Desk to route questions to the SAM II HR Contacts.